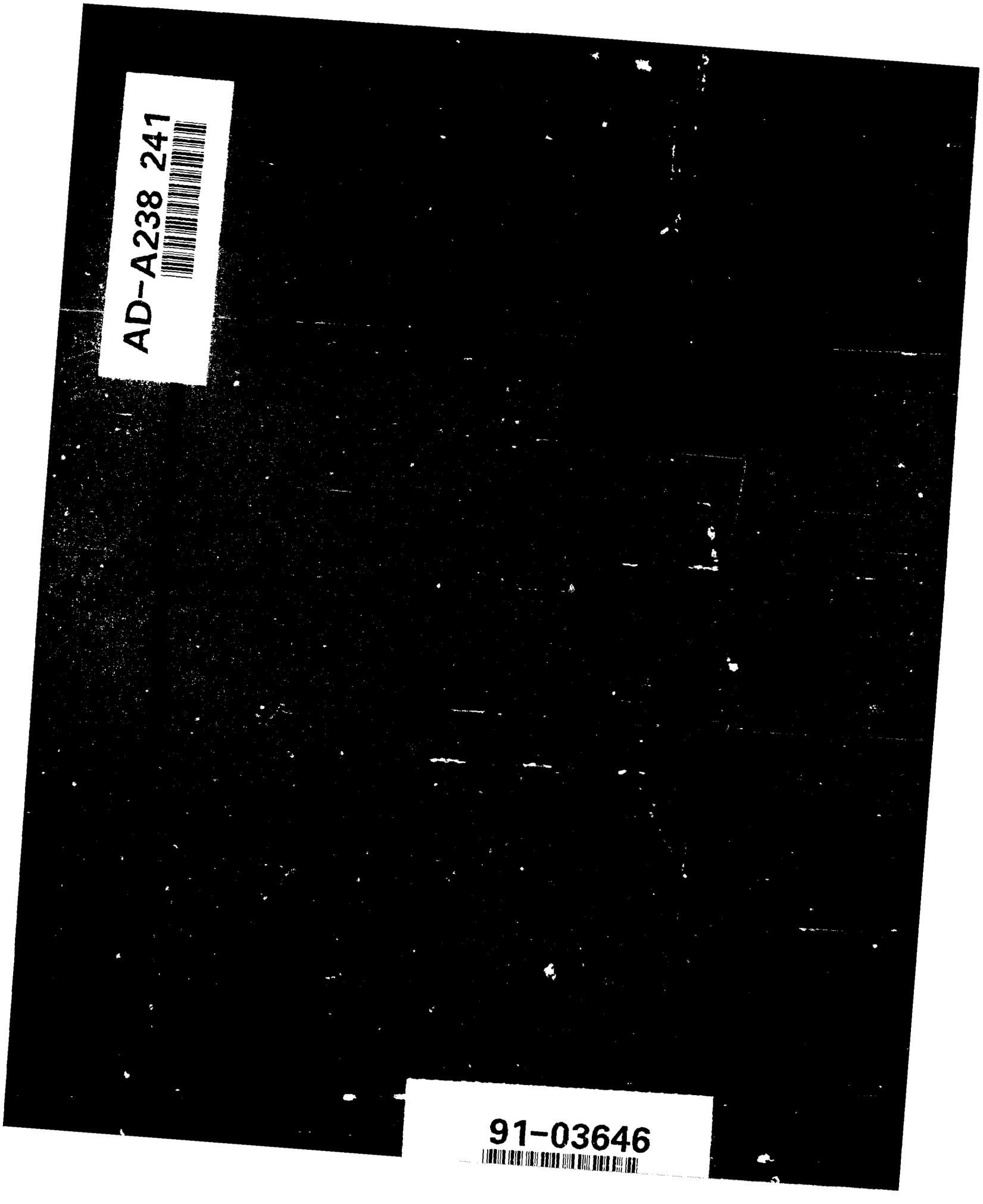

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THE GORBACHEV REVOLUTION: WILL ITS ECONOMIC REFORMS SUCCEED?

AN INDIVIDUAL STUDY PROJECT

by

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The Gorbachev Revolution: Will its Economic Reforms Succeed?

Introduction

The Gorbachev Revolution - what is it? Before we can determine the revolution's prospects for success, we must first understand the precise nature of this political, economic and diplomatic phenomenon. Since his elevation to the post of General Secretary of the Soviet Communist Party in March 1985, Mikhail S. Gorbachev has implemented sweeping and radical reform programs to redress severe economic, domestic and political conditions in the Soviet Union. Simultaneously, he has sought to improve its international image and remove institutional and ideological obstacles that could hamper his comprehensive plan. Gorbachev's "new political thinking" has required the U.S. and its European allies to review their national strategies and redefine their military objectives. Three concepts undergird the Gorbachev revolution: *Perestroika*, *Glasnost* and *Democratization*. *Perestroika* and *Glasnost* are the two principal elements of Gorbachev's economic reforms.

Background

Glasnost (publicity or openness) designates Gorbachev's policy of public disclosure. He has introduced a new tolerance for criticism, permitted a broader range of opinions in the press and in the arts and has advocated a more accurate rendering of Soviet history. *Glasnost* has attracted much attention in the Western media because it embraces the expression of liberal, conservative and extreme

nationalistic ideas. This policy, in essence, requires that certain decisions be made public by political officials in open forums. Thus soviet decision-making is now more subject to public scrutiny.[1]

Glasnost has been designed to restore the credibility of the Soviet government and Communist party leadership after years of deceptions and willful suppression of governmental and party shortcomings and failures. In the past, the Soviet media has not reported candidly about activities of the government, foreign affairs, disasters or shortcomings of the Soviet system. Now the media promulgates self-criticism and seeks accountability of the Soviet leadership to its people and the world. Significantly, *Glasnost* offers a token of good faith from the Communist party and the political leadership to Soviet citizens and to the international community in return for their commitment to *Perestroika*.[2] So public opinion is now important in Soviet affairs. Gorbachev actively seeks public support to increase his credibility and maintain his rapport with the public sector. *Glasnost* is essential to the Soviet Union's short and long-term *perestroika* goals.

Perestroika (restructuring) lies at the heart of Gorbachev's revolution. This multifaceted reform program encompasses all aspects of Soviet economic, military, political and domestic systems. It has been designed to accelerate the socioeconomic development of the USSR. As Gorbachev describes it, his political reforms include a

restructuring of the Soviet central government, the introduction of multicandidate elections and a relaxation of censorship.[3] Economically, Gorbachev seeks to reinstate limited private enterprise, flexible price structuring and decentralization of economic decision making. In the foreign policy arena, *perestroika* permits greater freedom for Soviet satellite countries and seeks improvement of relations with the West. Primarily, *perestroika* calls for a complex series of interrelated policy initiatives aimed at overcoming severe domestic and social problems, as well as other issues and challenges confronting Soviet society.[4]

Why *Perestroika?* After World War II, the Soviet Union maintained an annual economic growth rate of five percent. However, by the mid 1980s, the growth rate had declined to two percent: economic stagnation had set in.[5] The current Soviet per capita Gross National Product (GNP) is about 40 percent (or less) of that of the United States and other highly developed countries. Worse yet, most analysts, both in the West and in the Soviet Union, maintain that this decline and stagnation represent a long term trend, not a temporary crisis.[6] The Soviet Union by all accounts is going rapidly downhill. The decay is visible on all fronts. Shortages of basic foodstuffs and consumer commodities are widespread. Industrial output is poor because of lackluster worker performance and motivation. Natural resources are deteriorating in quality and are becoming increasingly costly to extract from the earth, especially raw materials in the

Siberian region. Economic failures are becoming more frequent, and unresolved problems have multiplied. The competition gap with the West continues to widen in production efficiency, quality of products, scientific research and development, production of advanced technology and the use of advanced techniques. World economists have concluded that the Soviet Union could degenerate into a Third World country if technology and living conditions continue to deteriorate.[7] This economic stagnation has occurred while most of the rest of the world has enjoyed increasing domestic and technological prosperity.

Democratization is shorthand for "socialist democracy." This initiative requires that any new forms and procedures for giving the Soviet people a greater voice in decisions concerning them must fit into the socialist framework of the Soviet Union. This concept involves more participation of Soviet citizens in governmental decision-making at both the local and national levels. It also allows the Soviet people to select Communist Party leaders at various levels, instead of having them appointed by high level party officials, as was past practice.[8] Although Gorbachev has initiated new political thinking and radical economic and social reforms -- internally and externally -- he has by no means converted to Western-style democracy. His goal is not to scrap the socialist system; instead, he seeks to save it from permanent economic decline through a series of bold pragmatic measures. His position is clear: "We intend to make socialism

stronger, not replace it with another system."[9]

Soviet "New Thinking" and U.S. challenges

Past Soviet "reforms" may lead analysts to conclude that Gorbachev's initiatives are nothing more than just another series of Soviet reform programs consisting of considerable rhetoric without much substance. Or could Gorbachev be sincere about internal and external reforms? If so, what are the implications for U.S. strategy? A safe test of Gorbachev's intentions, according to the Institute for East-West Security Studies, would have been his willingness to dismantle the Berlin Wall, to remove the bulk of Soviet military forces from Eastern Europe and to transform the Soviet political system.[10] Within the past two years, extensive negotiations and progress have been made on all of these fronts. The Berlin Wall is down, a negotiated timetable for removing Soviet forces from East Europe is taking place and extensive internal reform programs continue in the Soviet Union. The internal transformation of the Soviet Union has caused significant political, domestic and economic changes in other Eastern Communist Bloc countries as well. The new Soviet diplomacy and foreign policy initiatives are indeed unprecedented. They not only address long-standing military issues but internal political and regional issues as well. Gorbachev's new course has significantly altered traditional Soviet thinking regarding domestic, economic, and foreign policy matters.

Yet Gorbachev faces major national and international

obstacles in implementing his domestic programs. A large commitment of resources supports the Soviet Union foreign policy objectives, yet a major commitment is also required to accomplish his internal domestic goals. In essence, because of the Soviet domestic and economic quandary, he cannot adequately support both requirements. In order for Gorbachev to improve his domestic situation, he must improve his relations with the West. Therefore, major concessions are being made in the foreign policy arena to offset the cost of his massive internal reform programs.

Gorbachev's Efforts for Economic Reform

Gorbachev's economic programs to date present a mixed bag of economic reforms. Yet, very little has worked in terms of improving economic performance. Six years after Gorbachev's rise to power, the Soviet economy is visibly and catastrophically failing.[11] Out of necessity, rationing of such basic products as sugar has begun, in many cases for the first time since 1947. The country's economic problems are devastating. Living standards have plunged. Unemployment, which once did not officially exist, is rising steadily. The Soviet people are losing their confidence in *perestroika*, considering it for the most part mere rhetoric. Many have lost faith in Gorbachev, including some in the West.

In 1985, Gorbachev outlined his first reform policies to "jump start" the economy. He emphasized accelerated growth through more intensive use of inputs rather than simply through massing additional resources. This program called

for (1) higher production goals; (2) more investments in equipment, modernization and machines; (3) increased quality control through the creation of a new quality-control system; (4) a worker discipline effort, including an anti-alcohol campaign; and (5) new policies regarding wages and social benefits in order to level wages and establish a linkage between on-the-job performance and earned income.

This initial program was a failure; the economy remained stagnant. Higher production goals were not met. Extra income did not improve efficiency. The bureaucracy rejected quality control because it hindered their ability to meet goals; incentive bonuses favored quantity, not quality. The anti-alcohol program pushed alcohol production outside the legal system, which in turn, led to a major loss of state revenues. The wage and benefit plan also turned out to be ambiguous because enterprises remain focused on quantity -- meet the quota -- instead of quality or the efficiency of production.[12]

Abraham Becker, Director of RAND/UCLA Center of Soviet Studies, cites three reasons for Gorbachev's economic problems: First, the traditional Soviet centralized planning system has embedded overregulation, centralization, hyperbureaucratization, perverse incentives, inflexible prices and monopoly producers deep in the system. Second, this system overemphasizes quantity at the expense of quality. Third, the system allows for very little innovation, which has increased Soviet technological

backwardness.[13]

Yet, by 1987, Gorbachev was ready to move beyond his initial reforms. He introduced major reform measures to redress many sectors and to resolve issues of economic organization. These follow-on reforms ushered in price controls and private ownership, while they retained state centralized control and monopoly. Although these reforms were broad-based, they were neither comprehensive nor integrated. The changes were designed to foster independent enterprises, but the central state planners did not really relinquish control. The absence of competition and market prices along with decentralized authority led to higher wages, not improved efficiency and quality. Also, enterprises were supposed to generate their financing, so that subsidies could be reduced and/or eliminated. But prices did not reflect the true market situation, so firms' profits (or losses) were not dependent on their efficiency and competitiveness. More critically, state central planners, not the firms themselves, continue to control credit and resource inputs. Consequently, instead of going bankrupt, unprofitable firms continue to be subsidized. Additionally, the private ownership cooperative program process has been impeded by legal and business bureaucratic "red-tape." Also, the government prohibited co-ops in certain sectors (i.e., medicine, printing) which have been popular and profitable.

Overall the Soviet fiscal posture is also in dire

straits. The Soviet fiscal crisis has been caused by excess government spending, loose controls over wage and salary regulation, poor credit control, increases in state currency emissions (up to 60 percent in 1990) and substantial inflation.[14] In sum, the piecemeal reforms of 1987 have proved inadequate. They did not substantially increase efficiency. Government spending increased and revenue fell. The large deficit was financed by printing more rubles, which increased inflation. Soviet citizens no longer trust the value of the ruble, which has led to hoarding of goods -- which has only made shortages worse. The second round of economic reforms did not have the desired effects because of persistent bureaucratic centralized planning and control. Gorbachev recognizes that *perestroika* economic reforms must be even more radical.

In effect, Gorbachev has faced two profound economic problems, neither of which has been solved: the futility of the tradition economic system and the increasing fiscal problems that this archaic system has produced -- fiscal problems perhaps exacerbated by Gorbachev's initial economic reforms. Now he must face a third economic crisis: The internal strikes, ethnic unrest, nationalism and republican protectionism have obstructed the interregional flow of goods and services. In fact, this flow was already strained by the undercapitalized and poorly maintained railroad transportation system, which carries the bulk of the Soviet freight transport.[15] Furthermore, the Soviet fiscal system

lacks many of the most elementary structures necessary for a capitalist economy. There are limited opportunities for investments or for enterprises to attract capital. Consequently, many people keep their money under mattresses, which also feeds inflation. As shortages continue to mount, more rubles attempt to purchase fewer goods. Thus the economy is caught in a vicious circle. Large state enterprises -- accustomed to operating without competition -- cannot use prices to determine the free-market value of goods, because the state determines all prices. And there is no incentive to free prices from controls until industry is decontrolled. There is no incentive to decontrol industry until prices are freed.

Boris N. Yeltsin, the president of Russia's parliament, has insisted that the various Republics' leaders take control of economic reform. Gorbachev has not been inclined to adopt this concept. In August 1990, Gorbachev and Yeltsin agreed to form a panel to study how to overhaul the Soviet economy. The panel proposed a plan authored by Soviet economist Stanislav Shatalin. It called for a crash program to end central planning over a 500-day period. Gorbachev initially endorsed the plan, but then he backed out because he realized that it would strengthen the political power of the Republics at the expense of the central government.

What can be done?

Gorbachev has at least three options for addressing his country's complex economic problems. First, he could

reimpose the command system -- the Soviet model since the Stalin era. He could then cease his vacillating attempts at economic liberalization, which have only increased inflation by pushing up wages without producing and/or distributing the goods and services necessary to absorb the increased purchasing power and consumer demands of Soviet citizens. He also could abolish cooperatives. Likewise, he could ration scarce goods -- until production catches up -- and impose strict price controls. Finally, he could mount an all-out attack on corruption and other economic crimes. However these reactionary measures would run counter to his other reform programs, especially *Glasnost* and *Democratization*.[16]

Second, Gorbachev could apply "shock therapy" to the economy. Thus he would mount an all-out effort to transition immediately to a market economy: free all prices, privatize all state industries, allow free competition domestically and permit unrestricted imports from abroad. However, this scenario seems very radical and it probably goes beyond his vision of reform. It also would split the fragile coalition between the conservatives who support some form of economic reform and those who support maintaining the status quo.[17] All of them would unite to oppose such a radical program.

Third, Gorbachev could continue to attempt to fine-tune a "regulated market system." But his varied and uncoordinated economic strategies to date have had little or no success. Debates continue between the reformers and conservatives on the best path to economic prosperity. In

early 1990, the government's approach appeared to seek economic stability followed by sweeping cuts in government spending while increasing budget revenue. The anticipated long-term benefits would reduce the budget deficit by fifty percent. It would allow for increased personal saving and eliminate inflationary factors. Additionally, the government could possibly placate Soviet citizens' dissatisfactions by greatly increasing the output and availability of consumer goods.[18]

Yet the debates continue unabated regarding the direction, pace, scope and level of economic reforms. According to Becker, it appears the Soviets have not been able to agree on the most difficult aspects of the economic reforms: removal of price controls, abolition of the ministries and granting enterprises complete freedom of operations. However, Gorbachev's continuing efforts to implement incremental radical reforms seem only to be continuing and worsening the three dimensions of the Soviet economic crisis. The chief obstacles to the reforms are Soviet inertia and the general fear of change itself.[19] The traditional, systemic Soviet inertia is not being overcome by his reform efforts. The fiscal situation is not improving. The Union of Soviet Nations is weakening; and the burdensome, widespread infrastructure is not being upgraded to support new economic growth and to foster a market economy.

U.S. Foreign Policy Implications

The Soviet Union has dominated U.S. foreign policy since

the end of World War II. In a broad context, fundamental U.S. goals, in varying degrees, consisted of avoiding nuclear war, containing Soviet ideology and supporting internal Soviet societal infrastructure changes, including related changes in its satellite countries. Western skeptics now acknowledge the sincerity of Gorbachev's reforms and their implications for Western Europe, for the international community and, more importantly, for U.S. foreign policy and military strategy. The anomalous European events of the past two years therefore require the U.S. to redefine its national and military strategy for both the near and far term. As the Soviet Union continues to refine its emerging policies, the U.S. and its allies need to respond creatively to Gorbachev's initiatives. In short, new political thinking in the East requires new policy thinking in the West.

U.S. strategy should continue to focus broadly on nuclear deterrence, Soviet containment and support of internal changes in Soviet society. Although every administration since the postwar era has modified U.S. goals, this focus over the long term has been successful. Future policies and strategies must continue to support and complement this focus. Gorbachev's foreign policy initiatives offer momentous opportunities for the U.S. to refine, formulate and prioritize national and foreign policy objectives.

Minimizing the danger of nuclear war has been the centerpiece of U.S. and Soviet bilateral relations. It must

remain the first priority of U.S. national strategy. The current series of Soviet-U.S. arms reduction negotiations and the defensive potential of the Strategic Defense Initiative appear sound. They do not require modification. American and its allied triad nuclear strategic doctrine of flexible response and a viable NATO alliance is sufficient to deter nuclear war. More importantly, a meaningful dialogue between both nuclear superpowers concerning the management and control of nuclear weapons is essential.

The most visible favorable signs in Soviet-U.S. relations are their mutual restraint and cooperation concerning regional conflict in the Third World. Gorbachev has significantly reduced Soviet involvement around the world because of its economic costs and the decline of Soviet ideology. The Soviet withdrawal from Afghanistan, the dismantling of the "iron curtain," the dwindling Soviet support to Third World countries and the conciliatory Soviet support of Germany reunification exemplifies Soviet commitment to decreased expansionism. President Bush and Gorbachev's mini-summit in Helsinki solidified the spirit of cooperation between the two nations in response to the Persian Gulf crisis. U.S. and Soviet bilateral control of Third World weapons proliferation provides the next challenge. The U.S. must establish a priority in concert with the Soviets to diplomatically, politically and economically manage Third World conflicts in accord with our mutual interests. Simultaneously, these superpowers must

cooperatively control other countries' access to weapons of mass destruction.

Glasnost has awakened Soviet society and propagated nationalism. *Perestroika*, although a promising policy and despite constant tinkering with it, has been a domestic policy failure. Major restructuring of the political, economic and domestic systems continues with varying degrees of success, failures and unexpected consequences. Still the fundamental question remains: Is *perestroika* in the national interest of the U.S.? The U.S. position should be an unequivocal "Yes!" Gorbachev's initiatives to date, internally and externally, all favor U.S. national interests. So while he is battling economic disaster and opposing conservative Communist party members and growing nationalism, it is in the best interest of the U.S. to extend some form of economic assistance. The West cannot afford to miss this opportunity. Without Gorbachev's leadership, the Soviet Union could slide into dangerous chaos or slip back into tyranny, perhaps as a result of a military coup.

Conclusion

Gorbachev has again postponed a decision on what sort of economic system he is aiming for by referring the question of private land ownership to a referendum. When and how this will take place has not been decided. Meanwhile, Gorbachev still does not have an economic plan as the state stands on the brink of bankruptcy. More importantly, the central budget faces a significant loss of revenue from the three

Baltic states who refuse to contribute anything. Further, the Russian Republic recently voted to reduce its contribution to the central budget by 80 percent.[20] Challenges for more radical economic reforms from the left and right are increasing. Gorbachev's dream of restructuring (*perestroika*) the Soviet economy within the framework of socialism is slowly fading. Is the Gorbachev revolution also fading? Although it appears that the economic revolution may not be possible in a socialist framework, Gorbachev's economic, political and domestic changes are nevertheless alive. His political prospects and his revolution, considering his domestic challenges, faces an uncertain future. His removal from office will not return the Soviet Union to its previous state. The momentum of *glasnost*, *perestroika* and *democratization* reforms will continue -- with or without Gorbachev. This is his main achievement. He has set into motion a historical revolutionary process that may be delayed, amended, or slowed down. Nevertheless, it is essentially irreversible.

ENDNOTES

1. James R. Miller, Perestroika and Glasnost: Gorbachev's Gamble on Youth and Truth, p. 2.

2. Ibid., p. 4.

3. Lewis W. Bowden, Perestroika in the Soviet Union and Western Involvement, p. 3.

4. Ibid., p. viii.

5. Anthony Jones and William Moskoff, Perestroika and the Economy, p. vii.

6. Walter Laqueur, Soviet Union 2000: Reform or Revolution?, 1990, p. 83.

7. Russell Watson, el al., "Why He's Failing," Newsweek, 4 June 1990, p. 7.

8. Lewis W. Bowden, Perestroika in the Soviet Union and Western Involvement, p. 7.

9. Janet Podell and Steven Antouin, The Soviet Union, p. 8.

10. Robert Legvold, Gorbachev's Foreign Policy - How should the United States Respond, p. 28.

11. John Parker, "The Soviet Union," The Economist, 20 October 1990, p. 11.

12. Padma Desai, "The Reforms: Their Design," Perestroika in Perspective, 1989, p. 27.

13. Abraham Becker, "Three Dimensions of Soviet Economy," The Soviet Political System in Crisis, April 1990, p. 10.

14. Ibid., p. 10.

15. Ibid., p. 11.

16. Ibid.

17. Ibid.

18. Ibid.

19. Walter Laqueur, Soviet Union 2000: Reform or Revolution?, 1990, p. 95.

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